

Roma, lì 22 may 2006
Prot. n. 955-06/E/e/MS/pd

European Regulators Group
For Electricity and Gas – ERGEG

28 rue le Titien,
1000 Bruxelles
Belgium

By e-mail

Re: Remarks on the ERGEG Document of 10 April 2006. Draft Proposal on Guidelines on INTER TSO Compensation Mechanism.

FederUtility (Federation of Energy and Water Companies) has been operating since 1947 and is the Association of which all subjects operating in the field of electricity production (from whatever source), the importation and exportation, transformation, trading and end user sales of electricity can be members. Some 120 Operators in the Italian national electricity sector are members with a total sales of about 3.6 bn for the year 2005.

The member operators are particularly interested in the ERGEG Draft Proposal on Guidelines on INTER TSO Compensation Mechanism published on 10 April 2006 in view of the process of increasing liberalization and internationalization of the Italian electricity market and of the consequent significant interest felt by the member companies in the European market.

Consequently, the remarks on the above-mentioned document of particular interest to FederUtility members are set out in the following.

From the outset it must be stated that FederUtility shares the objective of enhancing the functioning of the mechanism defined as ETSO Cross Border Trade in order to harmonize it with the provisions of Regulation no. 1228/2003.

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The translation of this principle, in particular with reference to the mechanism for remunerating infrastructure costs denoted as *IMICA* – *Improved Modelling for Infrastructure Cost Allocation* – which it brought to the attention of the Operators through the ongoing consultation, is critical. FederUtility has generally detected a substantial lack of clarity in the proposals made by ERGEG, and the **lack of transparency** or **risk of discrimination** against Operators are in clear conflict with the foundations of the correct regulation of the sector.

In particular, substantial **further investigation** seems needed in connection with the **computation of the sensitivity factors**, which have a reflection on the correct and transparent application of the proposed mechanism. The aspects to be assessed carefully include, in our opinion, precisely the **identification of the network** at the various tension levels that form the object of remuneration.

Furthermore, we point out that greater information should be forthcoming concerning the **effects on the national tariff systems** caused by the transition to the *IMICA* mechanism. As stated above, the European electricity market is going through a phase of substantial globalization. It is necessary to avoid comparatively uninvestigated economic mechanisms leading to a strong penalization of Operators that are not vertically integrated; this would mean a clear failure of regulation and would lead ERGEG to intervene further on the matter under discussion, **having in the meantime created unequal market positions**.

We consider, among other things, that it is absolutely essential to **assess the effects of the overlapping between *IMICA* and the financial flows due to Congestion Management**. FederUtility considers that the two mechanisms should be coordinated and that a global solution should be identified that would allow the outlays due to the two processes to be minimized.

In conclusion, FederUtility sees a need to make a more in-depth assessment of the functioning of the mechanism in consultation and this should lead ERGEG to **reassess its application from 1 January 2007**.

In any case, it is necessary to avoid introducing an element of strong discontinuity in the economic equilibria of the European electricity Systems

and Operators by **capping, for two o more years, the costs related to the *TSO Compensation Mechanism*.**

We remain at your disposal for any necessary clarification.
Yours faithfully.

Co General Manager
(Giorgio Soldadino)

A handwritten signature in black ink, appearing to read "Giorgio Soldadino".